

STATEMENT BY
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2005-06 LOS ANGELES COUNTY PROPOSED BUDGET
APRIL 19, 2005

(Slide 1 – Proposed Budget)

Will appear on the screen at the beginning of the presentation.

(Slide 2 – Introduction Page)

Thank you for coming to the release of the **2005-06 Proposed Budget for the County of Los Angeles**. We have prepared a presentation to help illustrate some of the major elements of the budget recommendations.

(Slide 3 – Total Cost by Function)

As the 2005-06 Proposed Budget chart indicates, the Proposed Budget for all County Departments and Districts is \$18.5 billion and includes funding for 94,556 employees. This is an increase of \$565.0 million or 3.14 percent, of which \$233.0 million or 1.62 percent is for general County purposes and \$332.0 million or 9.31 percent is for Special Districts or Special Funds.

The Proposed Budget, divided into six functional areas reflects the following allocation:

- Health and Sanitation accounts for \$5.1 billion or 28 percent of overall budget and an eight percent increase from last year's budget.
- Public Assistance accounts for \$5.0 billion or 27 percent of the overall budget and a minimal decrease from last year's budget.

- Public Protection accounts for \$4.5 billion or 24 percent of the overall budget and a two percent increase from last year's budget.
- General Government accounts for \$2.2 billion or 12 percent of the overall budget and a nine percent increase from last year's budget.
- Recreation and Cultural accounts for \$0.5 billion or 3 percent of the overall budget and an eight percent decrease from last year's budget. This is due to completion of parks and open space capital projects.
- All Other, including Public Ways and Facilities, Education, Debt Service, Local Landscape Maintenance Districts, Designations, and General Reserves accounts for \$1.1 billion or 6 percent of the overall budget and a one percent decrease from last year's budget.

(Slide 4 – Total County Revenue)

Total County revenue is \$18.5 billion, a 3.14 percent increase over last year. This includes Special Funds and Special Districts as well as State and federal assistance for specific programs. The \$4.3 billion in locally generated revenue, which has grown one-third of one percent, is used to support general County programs.

(Slide 5 - Total Revenue General Fund)

For the General Fund, which excludes Special Funds, Special Districts and the Hospital Enterprise Funds, State and federal revenues that are restricted to specific uses account for approximately 67 percent of all General Fund revenue. The remaining \$4.3 billion or 33 percent is available for allocation by the Board of Supervisors and is identified as net County cost.

(Slide 6 – Locally Generated Revenue)

Although tax revenues are anticipated to increase an average of five percent over last year's budget figures, depletion of fund balance and expenditure of other one-time revenues, such as Capital Project funds, have contributed to a net overall growth projection of only one-third of one percent for locally generated revenue.

(Slide 7 – Net County Cost by Function)

The allocation of locally generated revenue, also referred to as net County cost (NCC), primarily reflects maintenance-of-effort and State and federal grant matching requirements as well as priorities of the Board, with emphasis on services to children, public health and public safety/anti-terrorism. As you can see, approximately 40 percent of NCC is allocated to Public Protection, 18 percent to Health and Sanitation, and 13 percent to Public Assistance. General County use, including central service departments such as Auditor-Controller, Internal Services Department, and the Treasurer and Tax Collector, receive 21 percent of available funds. Other categories, including designations and general reserves, receive 5 percent of funds, and Recreation and Cultural Services receives 3 percent of available dollars.

(Slide 8 – Comparison, Total Cost to Net County Cost)

This chart compares the allocation of total County revenues to the allocation of locally generated revenues which offset net County cost. While 55 percent of the County's total resources offset health, sanitation and public assistance, and 24 percent offsets public protection, 40 percent of net County cost dollars are allocated to public protection and 31 percent funds health, sanitation and public assistance.

(Slide 9 – Mandated vs. Discretionary Cost)

As we have demonstrated, the County has limited control over funding allocations. Almost 90 percent of the County's budget is spent on mandated programs or in meeting maintenance-of-effort requirements to avoid losing State or federal funds. Of the \$4.3 billion net County cost funding available, less than \$2.0 billion or about 10 percent of the total \$18.5 billion budget represents flexible costs, and much of that relates to one-time funding such as Capital Projects, reserves, and equipment costs.

(Slide 10 – Program Specific Revenue/Fixed Costs)

Program Specific Revenue/Fixed Costs accounts for over \$14.3 billion or 77 percent of the Proposed Budget. Over half of these funds, such as Medi-Cal, Medicare and CalWORKs, are earmarked for Health and Social Services programs, while another third of the funds represents special funds for courthouse construction, the LAC+USC Medical Center Replacement project, Mental Health Prop. 63, Public Library, Road and Special Road Funds, and various health and sanitation funds, and Special Districts, which includes Fire, Flood Control, Regional Parks and Open Space, Local Landscape Maintenance Districts, Garbage Disposal Districts, and various public ways and facilities, education, and public assistance funds.

(Slide 11 – Non-Flexible Costs)

Non-Flexible Costs account for \$2.3 billion or 12.6 percent of the Proposed Budget. These costs are tied to Public Safety maintenance-of-effort requirements, State and federal matching requirements, and statutory funding requirements such as indigent legal defense programs.

(Slide 12 – Flexible Costs)

Flexible Costs account for \$1.9 billion or about 10.5 percent of the Proposed Budget. Almost a third of these costs are allocated for public protection, 15 percent reflects funding for Capital Projects that are in progress, 10 percent is funding that has been reserved or designated for future requirements such as the public safety interoperable communications project, State mandated programs pending reimbursement by the State, and 2006-07 costs to reopen jail beds.

(Slide 13 – Budget Overview)

The 2005-06 Los Angeles County Proposed Budget primarily reflects funding increases for Public Safety and Justice systems and enhanced unincorporated area services, and strives to restore and stabilize funding for all other County services.

(Slide 14 – Public Safety and Justice, Sheriff and District Attorney)

For the **Sheriff's Department** the Proposed Budget funds 4,474 additional inmate beds to be reopened during 2005-06 and 2006-07, including:

- Reopening Century Regional Detention Facility (CRDF) as a 400 bed women's only facility;
- Reopening Peter J. Pitchess Detention Center East, North and South, and one floor at Tower II, for a total of 1,778 inmate beds;
- Reopening the 3rd through 6th floors at the Twin Towers Correctional Facility - Tower II; and
- Backfilling beds vacated by shifting the women inmates to CRDF, for a total of 2,296 inmate beds at the Twin Towers.

For the **District Attorney** the Proposed Budget funds 45.0 attorney positions to fill vacancies in various branch and area offices. The volume of cases referred for filing consideration has increased by over 10 percent since the 2002-03 fiscal year. The Proposed Budget also includes 10.0 investigators to support countywide Homeland Security efforts.

(Slide 15 – Public Safety and Justice, Fire Department and Interoperability)

The Proposed Budget adds 75.0 more **Fire Department** uniformed and support positions in response to increased fire protection and emergency service demands due to community growth in the existing service area.

Interoperable Communications

The County has reserved funding for the Los Angeles Regional Tactical Communications System, or LARTCS, which is currently in the planning stage. This interoperable communications system will ensure the ability of public safety agencies, including law enforcement and fire as well as State and federal agencies within Los Angeles County and from the eight adjacent counties in our region, to effectively communicate during a multi-agency response. The system is expected to be in operation within 30 months from contract award date.

(Slide 16 – Public Safety and Justice – Indigent Defense and Probation)

The Proposed Budget adds 71.0 new indigent defense positions in the Public Defender and Alternate Public Defender departments to address new Court mandated programs and cope with a 4.3 percent caseload increase for the Public Defender and a 10.0 percent caseload increase for the Alternate Public Defender.

Probation Department staffing has been augmented by 77.0 positions to enhance mental health, health, and custodial care provided to minors held at the three juvenile halls, as required by the federal Department of Justice. We have also recommended the addition of 30.0 positions to supervise at-risk youth in the community and 30.0 positions to assist youth to successfully transition from Probation camp placement back into their communities.

(Slide 17 – Enhanced Unincorporated Area Services)

Enhancing the quality of life in the unincorporated area is a major component of the County's strategic plan.

(Slide 18 – Unincorporated Area Services Gross Appropriation)

This chart represents total funding for Los Angeles County unincorporated area services, which has increased by \$112.8 million or 13.3 percent from last fiscal year.

(Slide 19 – Enhanced Unincorporated Area Services, Parks, OPS, Library)

Parks & Recreation – Adds \$17.0 million to fund 270.2 positions, services and supplies, and fixed assets appropriation to address various critical needs such as tree trimming, brush clearance, weed abatement, and grounds and facility maintenance, as well as support for computer clubs and recreation and aquatic programming. An additional \$20.1 million is included in the Extraordinary Maintenance Budget to fund deferred maintenance projects such as roof, plumbing, and electrical repair or replacement.

Office of Public Safety – Adds \$2.3 million of on-going and one-time funding for 14.0 positions to increase security at County parks.

Public Library – Adds \$27.2 million to fund 132.0 positions, services and supplies, and fixed assets appropriation to address critical needs in unincorporated areas of the County, and \$17.1 million for construction of new or replacement library facilities.

(Slide 20 – Enhanced Unincorporated Area Services, DA, Sheriff, Other)

District Attorney – Adds \$1.5 million to fund 10.0 positions to prosecute code enforcement violations in the unincorporated area.

Sheriff's COPS Program – Provides \$9.0 million to restore 103.0 positions for the Community Oriented Policing Services program in the unincorporated area of the County.

Strategic Planning Initiatives and Economic Development Projects - reflects funding to plan projects that will improve the quality of life in the unincorporated area.

(Slide 21 – Health Services)

The Proposed Budget includes a net increase of approximately 150 positions in the **Health Department**, and other cost increases primarily to meet operational requirements at the County's hospitals and health centers, and sets aside an additional General Fund contribution of \$40.0 million to help address future funding shortages. The County is in the process of developing a plan to manage anticipated funding reductions, in addition to continuing efforts to maintain and enhance State and federal support of our health care system.

(Slide 22 – Health Services Pie Chart)

The Department of Health Services provides services to the public through hospitals, health centers, and countywide health programs, primarily financed by State and federal funds. The Department faces significant reductions from the elimination of 1115 Waiver funds and reductions in SB 1255 Medi-Cal payments.

(Slide 23 – Health Services Fiscal Outlook)

On March 15, 2005, the Department of Health Services provided the Board of Supervisors with their latest fiscal outlook. The estimated cumulative shortfall is projected to be \$1.4 billion by fiscal year 2008-09. The Health Department is forecasting that by 2006-07 they will have depleted their designation balance and will experience a funding gap of over \$435.0 million.

In the 2007-08 budget, if the Department was unable to address the \$435.0 million problem through program curtailments or identification of on-going revenue, the \$435.0 million problem will continue to exist and will increase by \$31.0 million, which, when added to the 2005-06 problem will result in an accumulated total shortfall of \$901.8 million.

In 2007-08, unless an on-going solution is developed, the \$435.0 million and \$31.0 million problems will continue to exist, and will grow by an additional \$46.0 million. The accumulated shortfall from 2005-06 through the end of the 2008-09 fiscal year will total \$1.4 billion. The Health Department has also indicated that if the following three events transpire, the Department's projected cumulative shortfall could almost double to \$2.5 billion

by FY 2008-09. These projections do not reflect the potential impact of the State's Medi-Cal system redesign proposal.

- Inability to Close/Transfer Rancho Los Amigos National Rehabilitation Center and Reduce LAC+USC by 100 Beds on June 30, 2006 or thereafter estimated at \$337.8 million;
- Inability to Extend Cost-Based Reimbursement Clinics (CBRC) Revenues (or obtain approval for Federally Qualified Health Center (FQHC) status) beyond the Current 1115 Waiver Expiration, on June 30, 2005 estimated at \$236.0 million; and
- Federal Re-Basing of Selective Provider Contracting Program (SPCP) Waiver estimated at \$552.9 million.

(Slide 24 – Mental Health)

The Department will address their structural deficit with \$25.3 million in unspecified service reductions, which will be identified prior to budget deliberations. The Mental Health Services Act (MHSA) Fund approved in 2004 through passage of Proposition 63 will provide an estimated \$250 million in new mental health resources; however, these funds cannot be used to replace County funding for current mental health programs, and will be released by the State at a future date following submission and approval of a County plan for expenditure of the funds.

(Slide 25 – Social Services)

A new budget unit has been created in the **Children and Family Services Department**, at a cost of \$7.1 million, to concentrate on the three key areas that affect assistance costs: ensuring that only those children and families who should be served by the child welfare system are entering the system; reducing the time children spend in out-of-home care; and providing services to enable children to remain safely in their own homes or in other appropriate permanent homes. Departmental statistics from 2002-03 to 2003-04 show a 3.9 percent increase in the number children exiting out-of-home care within two years to be reunified with their families, adopted, or placed in legal guardianship.

The **Department of Child Support Services** has been allocated \$4.0 million in funding resulting from \$1.7 million in local collection incentives and \$2.3 million in federal funds. The Department has seen a 25 percent improvement in the child support collection rate during the past two fiscal years.

The **Department of Public Social Services** has reduced the Food Stamp Error Rate from 22.9 percent in FY 2000-01 to 7.8 percent in FY 2003-04, which has contributed to the State's ability to negotiate a favorable settlement of the federal penalty.

However, the **Department of Public Social Services** In-Home Supportive Services (IHSS) program reflects a caseload increase of 2.3 percent, resulting in a projected \$5.4 million increase in net County cost. This does not reflect the Governor's Budget proposal which would result in a \$74.4 million reduction in funding for IHSS Programs.

(Slide 26 – Public Assistance Caseload)

This slide indicates Department of Public Social Services program experience for the past four fiscal years and projects anticipated caseloads for the 2004-05 and 2005-06 fiscal years. Although caseloads for federal Temporary Assistance for Needy Families (TANF) and Indigent Aid have remained relatively stable, the IHSS caseload continues to rise.

(Slide 27 – General Government, Quality of Life and Risk Management)

General Government department and agency budgets reflect increased funding for improved arts programs and the expansion of the Consumer Affairs Self-Help Legal Access Center program to include centers in Palmdale and Long Beach in addition to the existing centers at Van Nuys, Inglewood, and Pomona.

The Proposed Budget also centralizes risk management programs in the **Chief Administrative Office** by transferring the Warrant Investigation Unit from the Auditor-Controller and adds an Information Security Officer position in the **Chief Information Office** to provide assistance to County departments in dealing with data system security issues.

(Slide 28 – General Government, Fiscal Responsibility and Emergency Road Repair)

The Shared Services Initiative improves organizational effectiveness by consolidating accounting and procurement functions for small and mid-size departments in the **Auditor-Controller's Office**. The first phase of this program is reflected in the Proposed Budget and includes 18 small and mid-size departments.

The Proposed Budget also increases funding for development of additional phases of the eCAPS system and 9.0 property tax collection positions in the **Treasurer and Tax Collector's budget**.

On April 5 of this year, **Emergency Road Repair Funds** in the amount of \$10.0 million were provided by the Board of Supervisors to continue road projects which have been deferred because of the work required due to recent storm damage to Los Angeles County roads. The Board further instructed my office to perform a detailed analysis of the remaining storm repair costs, estimated at \$50.0 million, and return with recommendations for consideration during budget deliberations.

(Slide 29 – Other Major Funding Recommendations – LACERA Excess Earnings)

The proposed budget continues the multi-year effort to reduce reliance on LACERA Excess Earnings.

(Slide 30 – Use of LACERA Surplus Earnings)

During the mid and late 1990s, the County had grown to rely heavily upon the use of unpredictable surplus retirement system (LACERA) earnings to meet its on-going financing requirements. Consistent with the Board's cautious approach to the use of one-time or uncertain funding, we began reducing the County's reliance upon surplus LACERA earnings by \$30 million per year over a multi-year period. FY 2005-06 represents the eighth year of that program, and increases the annual commitment to \$50.0 million.

(Slide 31 – *Performance Counts!*, Program Definition)

Performance Counts! is a performance measurement framework implemented in 2004-05 to report whether programs are meeting the intent of the County's efforts, using data available to measure the program results and analysis of program quality.

(Slide 32 – *Performance Counts!*, Program Intent)

Performance Counts! helps the County determine whether programs are effective and whether they are being provided in the best way.

(Slide 33 – *Performance Counts!*, Current Status)

In 2005-06, the County will begin to implement a pilot program to align performance measurement with budgetary allocations. The pilot departments are the Agricultural Commissioner/Weights and Measures Department, Auditor-Controller, Children and Family Services Department, Internal Services Department, Department of Mental Health and the Department of Public Social Services. The concept will be expanded over the next three fiscal years to include all County departments and agencies.

(Slide 34 – *Performance Counts!*, Program Effectiveness)

This chart indicates improved effectiveness in the Department of Children and Family Services Voluntary Family Reunification and Permanency Programs, and in Department of Child Support Services collections, which have occurred as a result of increased attention to performance measurement and analysis.

(Slide 35 – Children and Families Budget - Overview)

The Children and Families Budget is in year four of a five year implementation program to link program performance measures with budget allocations, actual expenditures, and funding sources.

(Slide 36 – Children and Families Budget – Total Appropriation)

Proposed spending for children and families accounts for 28.2 percent of the County's total Proposed Budget.

(Slide 37 – Children and Families Budget – Departments)

The Children and Families Budget is comprised of programs serving children and families in 21 County departments and agencies.

(Slide 38 – Children and Families Budget – Revenue Sources)

Federal, State and grant revenues offset nearly 90 percent of Los Angeles County programs for children and families. The remaining funding is provided by the County General Fund.

(Slide 39 – Children and Families Budget – How LA Systems Affect Families)

Over 40 programs may affect one Los Angeles family.

(Slide 40 – Children and Families Budget – Good Health)

County programs work to reduce the number of children and pregnant women who do not have health insurance coverage in Los Angeles County.

(Slide 41 – Children and Families Budget – Safety and Survival)

Children participating in the Department of Children and Family Services Voluntary Family Reunification Project have experienced a substantial reduction in the reoccurrence of abuse within six months.

(Slide 42 – Children and Families Budget – Economic Well-being)

The Child Support Services Department has increased child support collections, resulting in improved economic conditions for children.

(Slide 43 – Children and Families Budget – Social and Emotional Well-being)

The percent of subsequent pregnancies of participants in the Department of Health Services Nurse-Family Partnership Program continues to decline.

(Slide 44 – Children and Families Budget – Education/Workforce Readiness)

The Operation Read Program has improved the reading scores of participating Probation and Children and Family Services Departments youth.

(Slide 45 – Capital Projects Summary)

The Proposed Budget includes \$710.2 million for 406 projects, of which \$420.7 million are revenue-offset. \$211.0 million is allocated for Health projects. The LAC+USC Medical Center Replacement Project is scheduled to open in November, 2007.

(Slide 46 – Capital Projects Summary)

\$158.4 million is allocated for Recreation and Cultural Projects.

\$103.2 million is allocated for Public Protection Projects. The Crime Lab is scheduled to open in the fall of 2006. Three new Sheriff's Stations are under construction. The Palmdale Station will open during the summer of 2005. The San Dimas Station will open during the fall of 2005, and the Athens Station will open during the fall of 2007.

\$93.7 million is allocated for improvements to general government facilities.

\$69.2 million is allocated for Public Works facilities, County infrastructure, libraries, and Patriotic Hall.

(Slide 47 – Financing Assumptions, Workers' Compensation Costs)

Workers' Compensation costs, which reached \$324.4 million in fiscal year 2003-04, are estimated to total \$290.0 million in fiscal year 2004-05. The decrease is primarily attributable to significant legislative reforms enacted in 2003 and 2004 as well as increased loss control and preventative activities by County departments, especially the District Attorney and Sheriff's Departments, and the Chief Administrative Office-Risk Management Branch. Among other things, the legislation repealed the treating physician presumption, adopted new lower fee schedules for payments of pharmaceuticals and outpatient surgery and added utilization reviews. In addition, we are hopeful that the new Medical Provider Networks will help the County to keep these costs stable in the future.

(Slide 48 – Financing Assumptions, Major Revenue Sources)

On a budget to budget basis, the Proposed Budget assumes 6.2 percent growth in Property Tax, 2.0 percent growth in Local Sales Tax, a 7.8 percent growth in Realignment Sales Tax, an 11.8 percent increase in Public Safety Augmentation Sales Tax and a 5.3 percent increase in Realignment Vehicle License Fees (VLF). These growth estimates are based on information provided by various fiscal experts, applied to actual collection experience. The variance in the rate of sales tax growth is due to upward adjustment of the budget to reflect prior year actual collections.

(Slide 49 – State Budget Impacts, Proposition 1A)

With the passage of Proposition 1A in November 2004, the County now enjoys long-term financial protection from State reallocation of local discretionary revenues. Most importantly, the State can no longer arbitrarily reallocate local property taxes to reduce their costs for funding schools as they did in the past.

While Proposition 1A guarantees more predictable funding and relief from unfunded mandates, the General Fund is required to contribute \$103.2 million and the County Special Districts (Flood Control, Garbage Disposal, Lighting Maintenance and Waterworks) are required to contribute \$10.6 million to the State in both FYs 2004-05 and 2005-06 as part of the Local Government Agreement.

(Slide 50 – Governor’s Proposed Budget Potential Impacts)

To address shortfalls at the State level, the Governor’s proposed budget contains actions that impact the County. These actions are not addressed in the County’s fiscal year 2005-06 Proposed Budget pending legislative action on the Governor’s proposals, but will need to be addressed if they are approved by the legislature. The proposals include:

- Reductions in In-Home Supportive Services, \$74.4 million
- Suspension of State mandates, \$33.3 million
- Elimination of Juvenile Justice grants, \$27.9 million
- Suspension of Proposition 42 Transportation Funds, \$24.7 million
- Transfer of Undesignated Court Fees, \$9.8 million

(Slide 51 - Federal Proposed Budget Potential Impacts)

The Los Angeles Air Force Base (LAAFB) houses and supports the headquarters of the Air Force Space and Missile Systems Center, which is responsible for the research, development and acquisition of military space systems. The Los Angeles County Economic Development Corporation (LAEDC) estimates that the LAAFB is responsible for the direct (5,000) and indirect (45,000) employment of nearly 50,000 people in Los Angeles County, as well as 62,000 people in the rest of California. The LAEDC estimates the total annual economic output associated with LAAFB (i.e., revenues for businesses in Los Angeles County) is about \$8.0 billion. Statewide economic impact is estimated by LAEDC to exceed \$16.0 billion. Although this would not impact the County until the 2006-07 fiscal year, as you can see, if the LAAFB were to be placed on the Department of Defense Base Realignment and Closure (BRAC) list, the implications for the County and State would be significant.

The President's Proposed Federal Fiscal Year 2006 Budget

Much of the President's proposed budget savings would come at the expense of State and local government. Most of the federal fiscal year 2006 budget recommendations would impact the County beginning October 1, 2006.

Of major concern to the County, Medicaid, which alone accounts for about 44 percent of total federal revenue received by states and local governments, would be cut by \$60 billion over ten years. This could result in a loss to Los Angeles County of at least \$240.0 million annually. The President also proposes deep cuts in community development programs including the Community Development Block Grant, which has provided approximately \$34.0 million to the County's Community Development Commission, and elimination of the State Criminal Alien Assistance Program (SCAAP) which reimbursed the County for \$13.9 million in FFY 2004.

This concludes the Los Angeles County 2005-06 Proposed Budget presentation.